

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAJ-01

NIC-01 TRSE-00 EB-07 SIL-01 LAB-04 COME-00 /071 W

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R 071030Z MAR 75

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 4094

INFO AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

AMEMBASSY REYKJAVIK

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E.O. 11652: N/A

TAGS: PINT, EFIN, SW

SUBJECT: PARTIES AGREE ON TAX REFORM

1. FOLLOWING A WEEK OF INTENSIVE NEGOTIATIONS, THE GOVERNING SOCIAL DEMOCRATIC PARTY REACHED AGREEMENT WITH TWO OF THE NON-SOCIALISTS SWEDISH OPPOSITION PARTIES, THE CENTER APDH LIBERALS, ON A TAX REFORM PROGRAM TO TAKE EFFECT IN CY 1976. ONLY THE MODERATE (CONSERVATIVE) AND VPK (COMMUNIST) PARTIES REMAINED OUTSIDE OF THE AGREEMENT.

2. UNDER THE NEW PROGRAM, NATIONAL INCOME TAXES WILL BE REDUCED FOR ALMOST ALL TAXPAYERS, AND CHILD ALLOWANCES AND OTHER BENEFITS WILL BE INCREASED. TO FINANCE THE REFORMS, TAXES WILL BE RAISED ON LIQUOR, WINE AND CIGARETTES, AND A NEW ELECTRIC ENERGY TAX WILL BE IMPOSED. IN ADDITION, THE SOCIAL INSURANCE CONTRIBUTIONS OF EMPLOYERS WILL BE INCREASED. ACCORDING TO GOVERNMENT CALCULATIONS, THE REFORMS WILL MEAN APPROXIMATELY \$300 LESS ANNUALLY IN DIRECT TAXES FOR WORKERS WITH INCOMES OF AROUND \$8,000 YEARLY, AND APPROXIMATELY \$400 LESS FOR WORKERS IN THE

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\$10,000 TO \$20,000 INCOME BRACKET. SINCE THE INCOME OF

THE AVERAGE INDUSTRIAL WORKER IS EXPECTED TO EXCEED \$12,000 IN 1976 IT IS CLEAR THAT THE VAST MAJORITY OF THE LABOR FORCE WILL BENEFIT FROM THE REFORMS. THIS COULD IMPROVE CHANCES FOR AN EARLY AGREEMENT IN THE CURRENT NATIONAL LABOR-MANAGEMENT NEGOTIATIONS (STOCKHOLM 800).

3. WHILE BOTH THE MODERATE AND VPK PARTIES HAD ORIGINALLY PARTICIPATED IN THE TAX REFORM NEGOTIATIONS, BOTH PARTIES DROPPED OUT OVER THE PAST WEEKEND. (IN THE CASE OF THE MODERATE PARTY, ONE MP OF THAT PARTY INFORMED US THAT "THE DOOR WAS ACTUALLY CLOSED ON US" BY THE GOVERNMENT.) THE MODERATE PARTY HAD BEEN PARTICULARLY ADAMANT AGAINST ANY INCREASE IN THE EMPLOYERS' PAYROLL TAX; WHILE THE FINAL SETTLEMENT DID NOT INCLUDE ANY INCREASE IN THIS TAX, THE INCREASE IN THE EMPLOYERS' SOCIAL INSURANCE CONTRIBUTION AMOUNTED TO THE SAME THING IN THE VIEW OF THE AGREEMENT AS A "BETRAYAL" OF LOW INCOME GROUPS WHO WOULD FIND THEIR EXPENSES INCREASED BY THE SALES TAXES.

4. FROM THE GOVERNMENT'S POINT OF VIEW, THE ACHIEVING OF A "HAGA II AGREEMENT" (HAGA I WAS REACHED BETWEEN THE SOCIAL DEMOCRATS AND LIBERAL PARTIES IN MAY 1974) MEANS THAT ON FISCAL POLICY IT CAN COUNT ON THE SUPPORT IN PARLIAMENT OF BOTH THE CENTER AND LIBERAL PARTIES AT LEAST FOR THE REMAINDER OF THIS YEAR. THE AGREEMENT ALSO INCREASED THE LIKELIHOOD THAT THERE WILL BE NO ELECTIONS IN SWEDEN BEFORE THE REQUIRED DATE OF SEPTEMBER 1976. AND ALTHOUGH PRIME MINISTER PALME HAD TO COMPROMISE A BIT TO OBTAIN THE AGREEMENT, IT FURTHER CONSOLIDATES HIS POSITION AND THAT OF HIS PARTY, AS THE OPPOSITION PARTIES ONCE AGAIN FOUND THEMSELVES UNABLE TO UNIFY ON A COMMON PROGRAM IN OPPOSITION TO THE GOVERNMENT. AS ONE OPPOSITION PAPER REMARKED, "THE VICTOR IS OLOF PALME."

5. WHILE THE NEGOTIATIONS, HELD BEHIND CLOSED DOORS, HAD THE ADVANTAGE OF TIDINESS IN AVOIDING THE GIVE-AND-TAKE OF PARLIAMENTARY DEBATE, THE AGREEMENT PROCESS NEVERTHELESS RAISES QUESTIONS ABOUT THE VIABILITY OF THE SWEDISH OPPOSITION. FURTHERMORE, IN AVOIDING PARLIAMENTARY PROCEDURES TO WORK OUT THE SETTLEMENT, THE LIMITED OFFICIAL USE

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COOPERATING PARTIES "STRUCK A BLOW AT THE CONCEPT OF A PARLIAMENTARY OPPOSITION," AS ONE SOCIAL DEMOCRAT MP OBSERVED. STRAUSZ-HUPE

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